



Department of Justice

FOR IMMEDIATE RELEASE
THURSDAY, MAY 21, 1998

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JUSTICE DEPARTMENT HAS MAJOR COMPETITIVE CONCERNS WITH AMERICAN AIRLINES AND BRITISH AIRWAYS ALLIANCE

Slots and Restructuring Needed

WASHINGTON, D.C. -- The Department of Justice today said that American Airlines' proposed alliance with British Airways should not be approved by the Department of Transportation unless it is significantly restructured. The Department indicated that sufficient take off and landing slots should be made available to ensure that additional airline carriers will provide substantial new air service between the United States and London's Heathrow Airport.

American Airlines and British Airways are the two largest air carriers offering service between the U.S. and the United Kingdom.

According to comments filed today with the Department of Transportation, the Justice Department stated that, if it were reviewing the proposed alliance under the antitrust laws, the Department would seek to block the proposed arrangement because the alliance would significantly reduce airline competition between the U.S. and the U.K.

"The combination of American and British Airways would result in air travelers paying significantly higher fares for travel between the United States and Great Britain," said Joel I. Klein, Assistant Attorney General of the Justice Department's Antitrust Division.

Nevertheless, the Department said, the Department of Transportation, which has approval authority for international airline alliances under the Federal Aviation Act, is authorized to

approve the proposed alliance if it finds that it is necessary to achieve public benefits that clearly outweigh the competitive harm.

In its comments, the Department said that the way in which the public could benefit from the proposed alliance is if DOT's approval of the alliance would lead to an "open skies" bilateral treaty between the U.S. and the U.K. Such a treaty increases competition by removing government-imposed restrictions on airline carrier entry and pricing.

Although a bilateral open-skies treaty would be absolutely essential, the Department made clear that such a treaty, by itself, would not be sufficient to provide substantial public benefits. That is so because of the severe constraints that now exist on service at Heathrow Airport.

The Department concluded that, in addition to an open-skies agreement, the DOT should require slots and related facilities sufficient to operate at least 24 additional daily round-trips between the U.S. and Heathrow Airport be made available to competitors to American Airlines and British Airways.

The Justice Department also stated that making slots available to competitors would not fix the competitive problems associated with the alliance on routes between Dallas and London and Chicago and London--where American and British Airways have hubs at both ends and where entry by new airlines is therefore highly unlikely. As a result, the Justice Department recommended that these routes be excluded, or "carved out," of the proposed transaction, so that at least some head-to-head competition would remain.

"Significant slots and restructuring are absolutely necessary to preserve and expand consumer choice in this large and growing transatlantic market," said Klein. "Placing additional slots in the hands of other airlines would not only help restore competition in many of the

markets where American Airlines and British Airways currently compete head-to-head, but would also allow for new and expanded service from U.S. cities where nonstop service to London is not currently available. "From a competitive point of view, this is a troubling alliance and therefore only a very strong remedy could possibly justify its approval," added Klein.

American and British Airways together account for about 58 percent of the weekly flights between the U.S. and London and more than 63 percent of the flights from the U.S. to London Heathrow Airport, which is London's primary airport. The two airlines currently offer competing nonstop service to London from Boston, New York, Miami, Chicago, Dallas, and Los Angeles.

The Department's comments were filed at the Department of Transportation in Docket OST-97-2058. The Department of Transportation will make a decision on the alliance later this year. Competition authorities for the U.K. and the European Union are also reviewing the proposed alliance.

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